

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01

PA-02 PRS-01 USIA-15 FEAE-00 INT-05 AGR-10 /122 W

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R 131900Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6584

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 16348

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING DECEMBER 13

SUMMARY: THE ONLY THING BRIGHT IN BRITAIN THIS WEEK WAS
THE PANEL OF LIGHTS ON THE FOREIGN EXCHANGE DEALERS' DESKS
INDICATING A FLOOD OF CALLERS REQUESTING AN IMMEDIATE SALE
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OF STERLING. AMID A STREAM OF UNSETTLING NEWS, THE POUND

FELL 280 POINTS VIS-A-VIS THE DOLLAR FROM MONDAY'S (DEC. 9) CLOSING RATE OF \$2.3355 TO \$2.3075 ON THURSDAY, IN SPITE OF REPORTED STRONG SUPPORT BY THE BANK OF ENGLAND. THE DECLINE WAS EVEN GREATER AGAINST MOST OF THE EUROPEAN CURRENCIES WITH THE TRADE-WEIGHTED DEPRECIATION (SINCE SMITHSONIAN) WIDENING TO A RECORD LOW OF 21.9 PERCENT ON THURSDAY (DEC. 12). THE U.K. TRADE FIGURES WERE RELEASED ON THURSDAY (DEC. 12), SHOWING THE WORST DEFICIT ON RECORD, 534 MILLION POUNDS (S.A.). EVEN WITH AN ESTIMATED SURPLUS IN NON-MERCHANDISE TRADE OF 130 MILLION POUNDS, THE CURRENT ACCOUNT DEFICIT WIDENED BY 99 MILLION POUNDS OVER OCTOBER TO 404 MILLION POUNDS. THE BANK OF ENGLAND QUARTERLY (THIRD QUARTER ISSUE RELEASED FRIDAY, DEC. 13) REPORTS THAT OIL-EXPORTING COUNTRIES INCREASED THEIR STERLING HOLDINGS BY NEARLY 1.8 BILLION POUNDS IN THE FIRST NINE MONTHS OF THIS YEAR. THIS FIGURE REPRESENTS APPROXIMATELY 12-3/4 PERCENT OF THE TOTAL ESTIMATED OIL-PRODUCERS' ACCUMULATED CURRENCY SURPLUS DURING THE THREE QUARTERS. A LAST-MINUTE, BREATH-TAKING RESCUE OF THE IM- PERILED "SOCIAL CONTRACT" BY AN UNLIKELY HERO, THE PRESI- DENT OF THE NATIONAL UNION OF MINeworkERS, WAS THE MOST DRAMATIC DOMESTIC ECONOMIC ITEM OF THE WEEK. THE GOVERN- MENT ANNOUNCED MODEST INITIAL STEPS IN ITS ENERGY SAVING PROGRAM WHICH WILL SAVE ABOUT 100 MILLION POUNDS IN OIL IMPORTS. WHOLESALE PRICES ROSE SIGNIFICANTLY AGAIN AND THE TWO WHOLESALE INDEXES OF THE U.K. (INPUT AND OUTPUT) NOW STAND AT 37.5 PERCENT AND 28 PERCENT RESPECTIVELY ABOVE THEIR LEVELS OF A YEAR AGO. PROVISIONAL RETAIL SALES FIGURES FOR NOVEMBER INDICATE A SLIGHT RECOVERY FROM THE OCTOBER DIP, BUT RETAIL SALES ARE STILL ONLY ABOUT BACK TO THE LEVEL OF A YEAR AGO. BANK ADVANCES TO THE PRIVATE SECTOR ROSE ONLY SLIGHTLY IN THE 30-DAY PERIOD TO NOVEMBER 20, GIVING LITTLE INDICATION OF A CASH/FLOW SQUEEZE ON INDUSTRY YET. PRIVATE HOUSING ORDERS CONTINUED THEIR DECLINE IN THE THIRD QUARTER.

I. INTERNATIONAL

1. THE POUND FELL SHARPLY IN THE FOREIGN EXCHANGE MARKETS FOLLOWING REPORTS ON TUESDAY (DEC. 10) THAT THE SAUDI ARABIAN GOVERNMENT INSTRUCTED THE ARABIAN AMERICAN OIL UNCLASSIFIED

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COMPANY, ARAMCO, TO MAKE ITS TOTAL OIL PAYMENTS ENTIRELY IN DOLLARS RATHER THAN THE HERETOFORE WITNESSED PAYMENTS PATTERN OF 25 PERCENT STERLING AND 75 PERCENT DOLLARS. VIS-A-VIS THE DOLLAR, THE POUND FELL 280 POINTS FROM THE MONDAY (DEC. 9) CLOSING RATE OF \$2.3355 TO \$2.3075 ON THURSDAY IN SPITE OF REPORTED STRONG SUPPORT BY THE BANK OF ENGLAND. ON A TRADE-WEIGHTED BASIS, THE EFFECTIVE DE- PRECIATION OF STERLING AGAINST THE U.K.'S 10 MAJOR TRADING

PARTNERS WIDENED TO A NEW LOW OF 21.9 PERCENT ON THURSDAY (DEC. 12), A FURTHER DEPRECIATION OF 1.4 PERCENT OVER THE WEEK. THE PRICE OF GOLD CLOSED ON THURSDAY (DEC. 12) AT \$176.00, OFF \$2.75 FROM LAST THURSDAY'S CLOSE.

2. IN NOVEMBER, THE U.K. TRADE DEFICIT WAS THE WORST ON RECORD ACCORDING TO FIGURES RELEASED THIS WEEK. THE TRADE DEFICIT INCREASED BY 99 MILLION POUNDS (S.A.) OVER OCTOBER TO 534 MILLION POUNDS. THIS WAS COMPRISED OF A DEFICIT ON OIL TRADE OF 307 MILLION POUNDS AND A DEFICIT ON NON-OIL TRADE OF 227 MILLION POUNDS. THE 534 MILLION POUND TRADE DEFICIT COMBINED WITH AN ESTIMATED INVISIBLE TRADE SURPLUS OF 130 MILLION POUNDS YIELD A CURRENT ACCOUNT DEFICIT OF

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PA-02 PRS-01 USIA-15 FEAE-00 INT-05 AGR-10 /122 W

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R 131900Z DEC 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6585

INFO AMEMBASSY BERN

AMEMBASSY BONN

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AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

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PASS FRB AND TR

404 MILLION POUNDS. SEE LONDON 11652 FOR DETAILS.

3. THE BANK OF ENGLAND QUARTERLY REPORT OF THIRD QUARTER 1974 REPORTS THAT THE STERLING HOLDINGS OF OIL-EXPORTING COUNTRIES INCREASED BY 1.8 BILLION POUNDS OVER THE FIRST NINE MONTHS. THIS WOULD REPRESENT APPROXIMATELY 12-3/4 PERCENT OF TOTAL OIL-PRODUCERS' CUMULATIVE CURRENCY SUR-
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PLUS OVER THE PERIOD. IT WAS FURTHER ESTIMATED THAT SOME \$14.5 BILLION OF THE TOTAL \$33 BILLION PETRODOLLAR PLACEMENTS HAVE FLOWED INTO THE LONDON FINANCIAL MARKET THUS FAR THIS YEAR. THE INFLOW OF FUNDS HAS UNDOUBTEDLY HELPED FINANCE THE LARGE CURRENT ACCOUNT DEFICIT.

II. DOMESTIC

4. THE "SOCIAL CONTRACT" WAS SAVED FROM A GRAVE THREAT ONLY BY A LAST-MINUTE RESCUE BY THE "MODERATE" NATIONAL UNION OF MINeworkERS (NUM) PRESIDENT WHO OVERTURNED A RULING BY HIS "MILITANT" DEPUTY THAT WOULD HAVE PERMITTED A 66 TO 85 PERCENT MINERS WAGE CLAIM, PARTIALLY BACKDATED. THE NUM EXECUTIVE COUNCIL HAD VOTED TO REJECT THEIR NEGOTIATING COMMITTEE'S RECOMMENDATION FOR A 30 POUND WAGE CLAIM WITH 12.50 POUNDS TO BE BACKDATED TO NOVEMBER 1 AND THE REST TO BE EFFECTIVE FROM SPRING 1975. IN TERMS OF THE AMOUNT OF INCREASE AND IN BACKDATING THIS CLAIM WOULD HAVE BEEN A CLEAR BREACH OF THE "SOCIAL CONTRACT." THE NUM PRESIDENT ROSE FROM A SICK-BED TO OVERTURN HIS DEPUTY'S RULING AND KEEP THE CONTRACT BELIEVABLE A LITTLE LONGER. THE NUM WILL NOW ASK FOR A "SUBSTANTIAL" INCREASE IN UPCOMING WAGE NEGOTIATIONS WITH THE COAL BOARD AND THE MILITANTS WILL CONTINUE TO PRESS FOR A LARGE CLAIM. (SEE LONDON 16284 FOR DETAILS.)

5. THE GOVERNMENT ANNOUNCED ITS ENERGY-SAVING PROGRAM DECEMBER 9, WHICH IT IS BELIEVED, WILL SAVE OVER 100 MILLION POUNDS IN FUEL IMPORTS. AMONG THE DOZEN MEASURES ANNOUNCED ARE: REDUCTION OF SPEED LIMITS ON ROADS OTHER THAN MOTORWAYS; COMPULSORY TEMPERATURE OF 68 DEGREES IN PUBLIC BUILDINGS; RESTRICTIONS ON THE USE OF EXTERNAL DISPLAY LIGHTING; AND ASSURANCES THAT FUTURE OIL PRICE INCREASES WILL BEAR MOST HEAVILY ON GASOLINE. THE GOVERN-

MENT ALSO ANNOUNCED THAT IT WILL PROBABLY BE ALLOWING A 20 CENTS RISE IN GASOLINE PRICES, MAKING GASOLINE ABOUT \$1.60 TO \$1.64 PER IMPERIAL GALLON. (SEE LONDON 16149.)

6. THE WHOLESALE PRICE INDEX ROSE SUBSTANTIALLY AGAIN IN BOTH THE "INPUT" AND "OUTPUT" CATEGORIES. THE OUTPUT INDEX, WHICH RECORDS FINISHED GOODS EX-FACTORY ROSE FROM 162.2 IN OCTOBER TO 165.0 IN NOVEMBER (BOTH FIGURES ARE UNCLASSIFIED

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PROVISIONAL--1970 EQUALS 100). THIS IS AN INCREASE OF 1.7 PERCENT FOR THE MONTH; THE OUTPUT INDEX HAS INCREASED BY 28 PERCENT OVER THE PAST YEAR. FOOD PRODUCTS WERE THE MAIN CONTRIBUTOR TO THE OVERALL INCREASE. THE INPUT INDEX MEASURING FRESH FOOD AND RAW MATERIAL PRICES, ROSE FROM 223.7 IN OCTOBER TO 228.5 IN NOVEMBER (PROVISIONAL--1970 EQUALS 100), AN INCREASE OF 2.1 PERCENT. FOR THE YEAR THROUGH NOVEMBER THIS INDEX HAS INCREASED BY 37.5 PERCENT. FOOD PRICES, I.E. PURCHASES BY FOOD MANUFACTURING INDUSTRIES, ROSE BY 7.4 PERCENT AND PROVIDED ALMOST ALL OF THE IMPETUS FOR THE OVERALL INCREASE.

7. PROVISIONAL FIGURES FOR THE VOLUME OF RETAIL SALES INDICATE A SLIGHT INCREASE FOR NOVEMBER. THE NOVEMBER INDEX NUMBER IS 112 UP FROM 111.6 IN OCTOBER (S.A.--1971 EQUALS 100). THE OCTOBER FIGURE SHOWED A SLIGHT FALL FROM THE PREVIOUS MONTH. THE NOVEMBER FIGURE IS ABOUT LEVEL TO THAT OF NOVEMBER 1973 (112.1). FINAL ADJUSTMENT TO RETAIL SALES FIGURES HAVE TENDED TO LOWER THE INDEX; THUS, THE NOVEMBER INDEX NUMBER MAY BE REVISED DOWNWARD.

8. BANK ADVANCES TO THE PRIVATE SECTOR ROSE SLIGHTLY IN THE MONTH TO NOVEMBER 20, BUT DO NOT SHOW ANY SIGNS YET OF THE CASH/FLOW SQUEEZE ON INDUSTRY. ADVANCES BY CLEARING BANKS FELL BY 118 MILLION POUNDS, BUT THE SEASONAL ADJUSTMENT WOULD INDICATE A SLIGHT UNDERLYING INCREASE IN SUCH ADVANCES. THE PERSONAL SECTOR CONTINUED TO REDUCE ITS INDEBTEDNESS TO THE BANKS, WHILE LOANS TO HEAVY ENGINEERING AND SHIPBUILDING INDUSTRIES GREW. OVER THE PAST THREE MONTHS, ADVANCES TO MANUFACTURING INDUSTRY ROSE BY 137 MILLION POUNDS, LOANS TO THE FINANCIAL SECTOR STAYED ALMOST EVEN, AND THOSE TO THE PERSONAL SECTOR FELL.

9. PRIVATE HOUSING ORDERS IN THE THIRD QUARTER TOTALED ONLY 210 MILLION POUNDS, A DROP FROM 222 MILLION POUNDS OF THE PREVIOUS QUARTER. FROM THE THIRD QUARTER 1973, THE

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PA-02 PRS-01 USIA-15 FEAE-00 INT-05 AGR-10 /122 W

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R 131900Z DEC 74

FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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VALUE OF NEW PRIVATE HOUSING ORDERS HAS DECREASED BY 170
MILLION POUNDS. TOTAL HOUSING ORDERS FELL FROM 478
MILLION POUNDS IN THE SECOND QUARTER TO 469 MILLION
POUNDS IN THE THIRD. THEY WERE 540 MILLION POUNDS A YEAR
AGO.

10. THE FORWARD DISCOUNT ON STERLING WIDENED CONSIDERABLY

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FOLLOWING THE MOVEMENTS IN THE SPOT MARKET.

	12/5	12/12	CHANGE
1 MONTH	0.68	1.75	UP 1.07
3 MONTHS	2.62	3.95	UP 1.33
6 MONTHS	5.57	7.20	UP 1.63

(ALL FIGURES IN CENTS)

11. EURODOLLAR RATES FELL DURING THE WEEK.

	12/5	12/12	CHANGE
1 MONTH	10-5/8	10-1/4	DOWN 3/8
3 MONTHS	10-5.8	10-1/4	DOWN 3/8
6 MONTHS	10-5.8	10-1/4	DOWN 3/8

12. LOCAL AUTHORITY DEPOSIT RATES INCREASED AS THE WEEK ENDED AFTER REMAINING RELATIVELY STABLE DURING THE FIRST THREE DAYS OF THE WEEK.

	12/5	12/12	CHANGE
1 MONTH	11-13/16	12-1/4	UP 7/16
3 MONTHS	12-15/16	13-3/8	UP 7/16
6 MONTHS	13-9/16	13-5/8	UP 1/16

13. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, DECEMBER 13, 1974.

14. SEE ALSO THE FOLLOWING AIRGRAMS SENT FROM LONDON THIS WEEK: A-979, ECONOMIC PROGRESS REPORT; A-984, ECONOMIC FORECASTS BY NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH; A-994, UNITED KINGDOM BALANCE OF PAYMENTS: THIRD QUARTER 1974-CERP 0102; A-995, ECONOMIC FORECASTS BY SOCIETY OF BUSINESS ECONOMISTS FOR 1975; A-999, U.K. PRESS NOTICE; AND A-1000, WHAT'S WRONG WITH THE UK: EMBASSY COMMENTS ON THE UNITED KINGDOM IN 1980: THE HUDSON REPORT.

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TAGS: ECON, UK
To: STATE
Type: TE
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